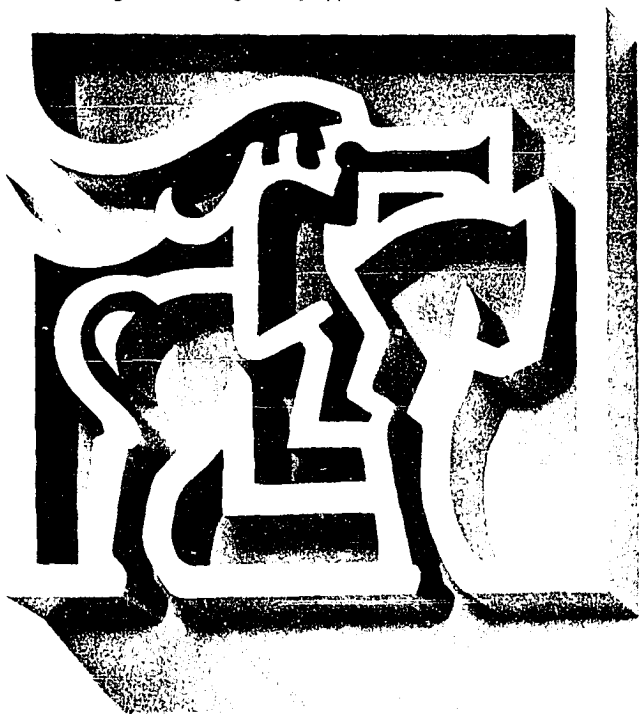


1977 Annual Report
Our Ninetieth Year



Manufacturing and Retailing Quality Apparel



Board of Directors

John D. Gray	<i>Chairman, Hart Schaffner & Marx</i>
Jerome S. Gore	<i>President and Chief Executive Officer, Hart Schaffner & Marx</i>
A. Robert Abboud	<i>Chairman of the Board of First Chicago Corporation and of The First National Bank of Chicago</i>
Lee S. Bickmore	<i>Chairman, Executive Committee, Nabisco, Inc.</i>
Charles L. Brown	<i>President and Chief Operating Officer, American Telephone and Telegraph Company</i>
James F. Chambers, Jr.	<i>Chairman of the Board and Chief Executive Officer, The Times Herald Printing Company (Dallas)</i>
Paul A. Conley	<i>Financial Consultant; retired Chairman of the Board, Blyth Eastman Dillon & Co. Incorporated</i>
James E. Devitt	<i>President and Chief Executive Officer, The Mutual Life Insurance Company of New York</i>
Arthur Gunzberg	<i>Chairman, M. Wile & Company, Inc.</i>
Walter B. D. Hickey, Sr.	<i>Chairman, Hickey-Freeman Co., Inc.</i>
John R. Meinert	<i>Executive Vice President, Hart Schaffner & Marx</i>
Burton B. Ruby	<i>President, Jaymar-Ruby, Inc.</i>
Elmer Schlesinger	<i>Investor</i>
Robert J. Witt	<i>Executive Vice President, Hart Schaffner & Marx</i>

Honorary Directors

Walter M. Heymann	<i>Retired (formerly Vice Chairman, The First National Bank of Chicago)</i>
J. M. Ruby	<i>Chairman, Jaymar-Ruby, Inc.</i>
Clay E. Steele	<i>Retired (formerly Senior Vice President, Hart Schaffner & Marx)</i>

Corporate Staff

John R. Meinert	<i>Executive Vice President</i>
Jerome Dorf	<i>Vice President and Controller</i>
Ralph Kaufmann	<i>Vice President</i>
Howard V. Knicely	<i>Vice President</i>
Mark J. Lies	<i>Vice President and Treasurer</i>
William J. McNally, Jr.	<i>Vice President</i>
Charles L. Stewart	<i>Vice President, Secretary and General Counsel</i>
Raymond L. Valentine, Jr.	<i>Vice President</i>
Edward R. Weed	<i>Vice President</i>
Roger H. Clausen	<i>Assistant Controller</i>
Andrew A. Zahr	<i>Assistant Controller</i>
Kay C. Nalbach	<i>Assistant Secretary</i>
Harrison Hanson	<i>Director of Computer Systems</i>

Executive Committee

Audit Committee

Compensation and Stock Option Committee

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10-15	Retail Stores Division
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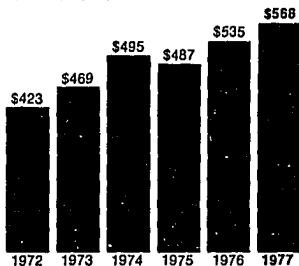


Highlights

Years ended November 30	Change	1977	1976	
	+ 6%	\$567,986,000	\$534,609,000	Net sales
	+ 12%	15,505,000	13,850,000	Net earnings
		8,601,000	8,588,000	Average number of common shares and common share equivalents
	+ 12%	1.80	1.61	Earnings per share
	+ 14%	.72	.63	Cash dividends per common share
	+ 5%	188,792,000	179,473,000	Shareholders' equity
	+ 5%	22.05	20.97	Equity per share
	+ 2%	21,000	20,500	Employees
		8,900	8,900	Shareholders
	+ 6%	276	261	Retail stores in the U.S.

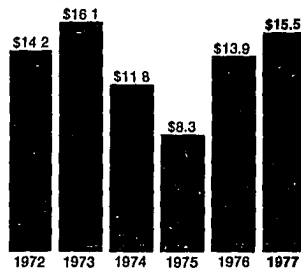
Net Sales

in millions of dollars



Net Earnings

in millions of dollars



Hart Schaffner & Marx, the leading manufacturer of men's tailored clothing and owner of outstanding stores selling men's and women's quality apparel, celebrated its 90th anniversary in 1977. It was a good year for your Company.

Sales, Earnings and Dividends

Sales increased 6.2 percent to a record high of \$567,986,000 in the fiscal year ended November 30, 1977 from 1976 sales of \$534,609,000. Earnings increased 12 percent to \$15,505,000 or \$1.80 per share in 1977 from \$13,850,000 or \$1.61 per share in 1976. Sales and earnings, compared by quarters on page 22, were at record highs for the fourth quarter of 1977. We expect sales and earnings for the 1978 first quarter to be the highest in our history and that fiscal 1978 will be an excellent year for Hart Schaffner & Marx.

The Company's good results are reflected in the dividend action taken by your board of directors. The quarterly dividend, increased from 15 cents to 18 cents per share with the November, 1976 payment, was raised to 20 cents per share with the February, 1978 payment.

Return on Investment

The retail and manufacturing divisions both contributed to the improved earnings and return on investment in 1977, when \$15,505,000 was earned on average equity of \$184 million. This 8.4 percent return, compared to 8.0 percent in 1976, was earned on a higher shareholders' equity, which has grown to \$22.05 per share.

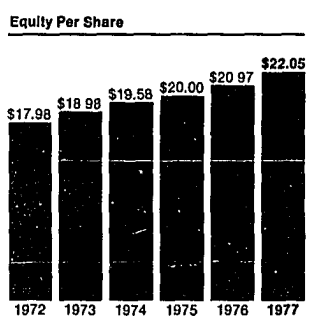
The Company's objective for further improvement in return on investment requires higher earnings and faster inventory turnover. Inventories at November 30, 1977 were \$159 million, 10 percent higher than the year before. Inventories at November 30 are at peak levels in preparation for December business, and 1977 figures include 15 more stores than in 1976. Turnover should improve through higher sales without proportionate increases in inventory, as the present level provides our customers with complete merchandise selections.

Retail Stores Division

Retail sales increased to a record \$348 million in 1977 from \$337 million in 1976. While mid-year sales were not strong, improvements began in August and sales were 10 percent ahead in November. Our 1978 fiscal year started with an excellent December sales increase of 16 percent in our retail stores, and a small increase in January when severe weather conditions adversely affected sales in many areas. Record retail sales are expected for the first quarter and fiscal 1978.

The Company now operates 276 apparel stores in the U.S. of which 25 are women's stores. Twenty-two stores were opened in 1977 as an unusual number of good locations became available. Ten to twelve new stores are planned for 1978. Seven stores were closed as their prospects for contributing to profits were not commensurate with the investment required.

Equity Per Share





John D. Gray



Jerome S. Gore

The operation of apparel stores provides retailing experience and information which helps your Company respond successfully to consumer preferences. This enables us to manufacture and market the best products for all our retail customers, whether owned or independent accounts. Our men's stores purchased over \$55 million of the Company's manufactured products in 1977, which adds stability to planning, materials purchasing and production. Our merchandising executives in retailing and manufacturing exchange ideas regarding sales trends, fabrics, fashion designs, and customer service. This coordination benefits all our customers.

Manufacturing

Total manufacturing volume in 1977 increased to over \$275 million, of which over \$55 million was shipped to our own stores and therefore excluded from consolidated sales. Sales to independent accounts grew 10 percent in 1977 to a record \$220 million from approximately \$200 million in 1976. Further increases are expected for 1978. Prices for tailored clothing increased following the new industry-wide union contract with wage increases totaling \$1.10 per hour plus other benefits from June 1, 1977 to September 30, 1980.

American men are more fashion conscious than they have been in many years. Consumer demand for well-tailored suits, especially those with vests, continues at a high level and quality outercoats, sport coats and slacks are selling very well. Our business is benefiting from the renewed interest in higher quality goods and the greater distinction by the majority of men between casual apparel for leisure wear and appropriate attire for business. Our manufacturing divisions described in the following pages market our products with prestigious brand names. They appeal to different segments of the

market as indicated by typical retail price ranges of our suits shown by brand name on page 25.

Many of our brand names are licensed to manufacturers in other countries. Our most extensive program is through Marubeni Corporation, a major Japanese trading company. Your Company is the international apparel representative for Jack Nicklaus licensing, and in Japan, Asahi Chemical Industry Co., Ltd. is the major licensee. The licensing of the Johnny Carson name in the U.S. and Canada for men's products has also been successful.

Financial Condition

Your Company's excellent financial position is indicated by current assets of three times current liabilities and payment of all bank loans outstanding at November 30, 1977 and 1976 by December 10 of each year. Shareholders' equity is \$188.8 million at November 30, 1977 or three times the long term debt, which is \$61.8 million or only 25 percent of total equity and debt. This debt includes \$25 million borrowed from several insurance companies, of which \$17 million was received in October, 1976 and \$8 million was received in May, 1977.

Organization

Your Company's corporate and divisional organization is structured to attain the best results from our decentralized manufacturing and retailing operations. Attracting and promoting qualified employees, planning the direction of our marketing and setting our objectives accordingly are important parts of our overall strategic plan for the Company. During 1977, we established a human resources department at the corporate level and we expanded the functions of the planning and marketing department. Improvements are being made in our evaluation, training and incentive compensation

programs. In accordance with our market research findings, we are broadening the appeal of our stores by offering a greater selection of fashion apparel styled and priced for the younger customer. Our objective is to attract new customers and gain additional sales while maintaining our leadership position in quality tailored clothing. We are also directing our business toward women's wear retailing which has grown to almost \$100 million of our annual volume.

During the year, James E. Devitt, president and chief executive officer of The Mutual Life Insurance Company of New York, joined our board of directors. We are pleased to have his talent and experience available.

Many people deserve appreciation for the growth and prosperity of Hart Schaffner & Marx over its long history. Our officers and directors join us in thanking our shareholders for their confidence, our customers for their continuing loyalty, and our employees for their dedicated efforts in providing the best products and service to our customers.

Very truly yours,

John D. Gray
Chairman

Jerome S. Gore
President and
Chief Executive Officer

February 10, 1978

Hart Schaffner & Marx Clothes

Suits, sport coats, slacks, and outercoats

Brands
Hart Schaffner & Marx
Christian Dior
Sterling & Hunt
Jack Nicklaus
Graham & Gunn, Ltd
Society Brand, Ltd
Austin Reed of Regent Street
Fashionaire

Management

William H. Mier, *President*
E. O. Hand, *Executive Vice President*
Alfred Katz, *Group Vice President*
Hugh Gallarneau, *Vice President*
Max A. Hart, *Vice President*
Anthony Karson, *Vice President*
Michael Kent, *Vice President*
Alex Rinaldi, *Vice President*
John Rossi, *Vice President*
William W. Rowlette, *Vice President*
Donald D. Shorr, *Vice President*
Albert F. Bergschneider, *Controller*

Society Brand, Ltd.

Howard Zenner, *Executive Vice President*

Austin Reed of Regent Street

Barry A. Reed, *Chairman and President*
Robert E. Bruno, *Executive Vice President*

Graham & Gunn, Ltd.

Lester B. Hale, *Brand Manager*

Fashionaire

Men's and women's career apparel
Barbara Ash, *Vice President*
Thomas D. Ahern, *Vice President*

The Hart Schaffner & Marx Clothes Division enjoyed a record year in 1977 with the largest increase in sales and earnings of all the divisions. Hart Schaffner & Marx enhanced its position as the most important brand in men's quality clothing. This label and the "Designed by Christian Dior" label are on the prestige line of clothing styled by this renowned couturier from specially selected fabrics.

Society Brand, Ltd., the international clothing brand, introduced its new fashion look in a promotion of "Styles from Around the World to be Worn Around the World." This new approach recognizes innovative styling which has attracted more business and new customers.

Graham & Gunn, Ltd. was particularly successful with the natural shoulder look in vested suits sold by an exclusive group of men's specialty stores.

The famous Jack Nicklaus name appears with the Hart Schaffner & Marx label on a special collection of suits, sport coats and slacks; this line will be nationally advertised on CBS radio in connection with the 1978 Masters Tournament.



Headquarters:
36 South Franklin Street
Chicago, Ill. 60606

8 Plants Chicago (3) and Rock Island (2), Ill.,
Rochester, Ind., and Cape Girardeau and
Chaffee, Mo.

Thorngate Uniforms, Inc.
*Military Academy, School, and Airline
Uniforms*
Nicholas C Assalono, President

2 DeKalb Street
Norristown, Penn. 19401



*Austin Reed of
Regent Street is
growing dramati-
cally with its highly
publicized "Pub
Crawlers Collec-
tion" of English and
Scottish fabrics.
These suits, sport
coats and slacks
with the British look
and styling were co-
ordinated with cor-
duroy vests and
sweaters imported
from England.*

*Austin Reed Group, Ltd.,
which operates stores
in the United Kingdom
and Europe, licenses
the name and has
authorized Hart
Schaffner & Marx to
select additional
licensees for other
men's products*



Hickey-Freeman Co., Inc

Suits, sport coats, slacks, outercoats and formalwear

Brands

Hickey-Freeman
Walter-Morton
Gilbert & Lodge

Management

Walter B. D. Hickey, Sr., *Chairman*
Walter B. D. Hickey, Jr., *President*
G. Sheldon Brayer, *Vice President*
Howard A. Broitman, *Vice President*
Richard B. Lyons, *Vice President*
Morris M. Medved, *Vice President*
Alme G. Messe, *Vice President & Secretary*
Donald B. Parish, *Treasurer*

Headquarters

1155 Clinton Avenue North
Rochester, N.Y. 14621

3 Plants Rochester (2) and Buffalo, N.Y.

Classic looks dominate the Hickey-Freeman fashion scene, and these models are being enthusiastically accepted by retailers and consumers. Products featuring the finest quality exclusive British woolens showed exceptional sales increases, indicating continued preference for the highest quality garments.

Burma, a new tropical blend fabric with a very soft, luxurious feel, exclusive to Hickey-Freeman, has been introduced and will be featured in advertising spring, 1978 suits.

Walter-Morton sales continued to grow during 1977 and new accounts were added. "Royal Cashmere" top-coats of 100 percent fine cashmere and suits of fine imported British fabrics made strong gains.



M. Wile & Company, Inc

Suits and sport coats

Brands

Johnny Carson
Nino Cerruti
Don Richards
Country Casuals
London International

Management

Arthur Gunzberg, *Chairman*
Lawrence Gunzberg, *President*
Kenneth Hoffman, *Executive Vice President*
Guy Gunzberg, *Senior Vice President*
Bert Amador, *Vice President*
Joseph Diskin, *Vice President*
Frank Norton, *Vice President*
George Odvarka, *Vice President*
Fred Pepperday, *Vice President*
Edward Robbins, *Vice President*
Joseph Starzec, *Vice President*
Victor Jachimowicz, *Secretary and Controller*

Johnny Carson Apparel, Inc.

Arthur Gunzberg, *Chairman*
Johnny Carson, *President*
Kenneth Hoffman, *Vice President*

Headquarters

2020 Elmwood Avenue
Buffalo, N.Y. 14207

3 Plants Buffalo (2) and Dunkirk, N.Y.

M. Wile & Company celebrated its 100th Anniversary during 1977 with record sales. It produces moderately priced suits and sport coats which are distributed under several brand names and private labels.

Johnny Carson Apparel, which has enjoyed dynamic growth since it was founded in 1970, features a complete line of men's clothing. The name has been successfully licensed for men's apparel in Canada and furnishings in the U.S. The most recent 1977 development is "Here's Johnny" cologne aftershave. Johnny Carson commands tremendous recognition for the fashionable products bearing his name.

The Nino Cerruti designer line is directed toward the fashion-oriented young man. Elegant fabrics in distinctive models accent the Nino Cerruti Rue Royale collection.

London International is M. Wile's interpretation of the classic look with fine wools to highlight the soft traditional appearance.



Jaymar-Ruby, Inc.

Slacks, sport coats and coordinated sportswear

Brands
Jaymar
Cary Middlecott
Sansabell
Nino Cerruti Sport

Management

J. M. Ruby, *Chairman*
Burton B. Ruby, *President*
William E. Staples, *Group Vice President*
Nathan S. Balsear, *Vice President*
Jack R. Frank, *Vice President*
Harley Job, *Vice President*
Al E. Kahan, *Vice President*
Edwin H. Levittin, *Vice President*
Harold Leinwand, *Vice President and Treasurer*
James J. Moore, *Vice President*
Gerald I. Paige, *Vice President*
Robert L. Plummer, *Vice President*
Roger L. Webb, *Vice President*

Headquarters
5000 South Ohio Street
Michigan City, Ind. 46360

9 Plants Michigan City (4) and East
Chicago, Ind., Anniston and Russellville, Ala.;
Elizabethtown, Ky., and Rector, Ark.

Jaymar-Ruby is the largest manufacturer of men's high-quality slacks, sold in several thousand stores throughout the U.S. It expanded in the sportswear market and achieved record sales in 1977. Sansabell strengthened its leading position in quality dress slacks. Jaymar Sportswear continued to grow, Nino Cerruti Sport was successfully launched and this internationally styled sportswear was enthusiastically received by retailers.

Several new developments which will increase efficiency were recently completed. These include the purchase of a new computer, a computerized marking and grading system, and an automated cutting system installed in a new, specially designed piece goods warehouse.



John Brodie, NBC sports commentator and former all-pro quarterback for the Forty-Niners, will be featured in national ads and network TV commercials for Jaymar.

Gleneagles, Inc.

Rainwear, outerwear, sportswear and leisurewear

Brands
Gleneagles
Great Western

Also rainwear, outerwear and sportswear under labels of Christian Dior, Jack Nicklaus, and Nino Cerruti

John T. Rigney, *President*
Alfred S. Oppenheimer, *Senior Vice President*
Gerald J. Kaplan, *Vice President*
John F. Newell, *Vice President*
Carl Sand, *Vice President and Controller*
James R. Swann, *Vice President*

Headquarters
808 Gleneagles Court
Baltimore, Maryland 21204

3 Plants Baltimore, Md

Blue Jeans Corporation

Jeans and coordinated outfits

Management
P. Douglas McMillan, *Vice President and Treasurer*
Seymour Elkins, *Vice President*
Martin Steinberg, *Vice President*

Headquarters
130 West 34th Street
New York, N.Y. 10001

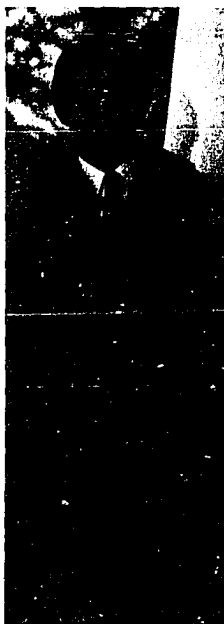
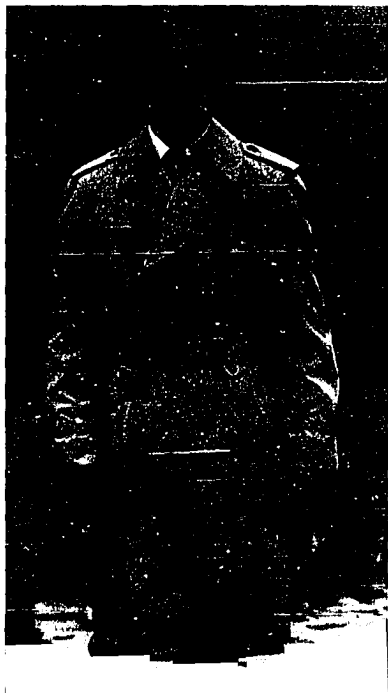
2 Plants Whiteville, N.C. and Bethune, S.C.

Gleneagles manufactures men's rainwear and Great Western outerwear. In 1977, all operations were consolidated in Baltimore.

New silhouettes, continued updating of basic best-selling models, and new fashion fabrics have been combined with models designed by Christian Dior and Nino Cerruti to expand total distribution.

Jack Nicklaus jacket and pants in mix and match color combinations have become a popular sportswear ensemble.

The Great Western outerwear line features merchandise styled for rugged climatic conditions as well as elegant urban wear in new wool tweeds and wool velours.



Blue Jeans Corporation manufactures and distributes girls' and women's jeans and coordinated outfits under private labels to chain stores and other major retailers. In addition to its activities in the denim jean market, its efficient and flexible factory is able to produce a variety of casual apparel.

Jeans have been widely discounted during the past year causing market uncertainty. Sales had increased in 1976 but in 1977 declined to the 1975 level and production was adjusted accordingly.

Sales of the Retail Stores Division increased to a record \$348 million in 1977 from \$337 million in 1976. With the opening of 22 stores, the Division now operates 276 stores in the U.S., the largest number in our history. These new stores are located in 14 metropolitan areas of which half are in rapidly growing sunbelt markets. In addition, four stores were relocated to replace older units, in Scottsdale, Arizona and downtown Seattle, Tampa and Houston. Seven store locations with inadequate profit prospects were closed. The 1977 investment in new stores, relocations, equipment and renovations of existing stores totaled \$6 million.

Our retail subsidiaries are shown on pages 14 and 15 by store name and type. The executives managing these profit centers are encouraged to initiate creative ideas and offer the most desirable merchandise for their market area. The Division's

staff provides financial, merchandising, advertising, accounting, credit, personnel, inventory control and other advisory services. The combined advantages of local management with staff assistance and policy guidance by the Division management have helped our stores build outstanding reputations for fashion, quality and service.

Retail sales of women's apparel including leased departments are now almost \$100 million annually. Our 25th women's store was opened in 1977 by Chas. A. Stevens, Chicago, in Orland Square. Eleven women's departments were added in our men's stores and now 144 of the 251 men's stores also sell women's wear.

There are now seven R. J. Boggs stores and more are planned for 1978. These smaller stores (2,500 sq. ft.) feature moderately priced clothing and sportswear particularly appealing to the 20 to 45 age group.

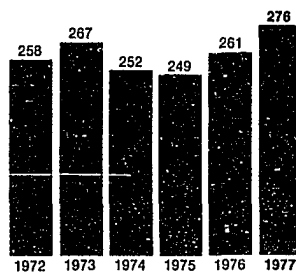


The sixth Liemandt's store opened at Burnsville Mall in Minnesota during 1977.

Wallachs opened four new open front concept stores in New England and New Jersey in 1977.



Number of Retail Stores



Division Management

Robert J. Wilt, *Chairman and Chief Executive Officer*
Harry P. Guinther, *President*
Henry C. (Chick) Schwartz, *Executive Vice President*
Charles A. DeChants, *Senior Vice President*
Don A. Miller, *Senior Vice President*
Frank Brenner, *Vice President*
Gene Coccodrilli, *Vice President*
Gerard K. Donnelly, *Vice President*
Donald R. Putnam, *Vice President*
Stan Smolen, *Vice President*
Harry B. Spilg, *Vice President*
Donald Wilson, *Vice President*

Men's Market Merchandising Corporation

Matthew F. Shannon, *President*
Allan Baumei, *Vice President*
Eugene L. Mellott, *Vice President*

Women's Market Merchandising Corporation

Betty Green, *President*

This is the fastest growing population segment and many of our men's stores have special shops to attract this younger, fashion conscious customer.

Sales of the Division include Robert's, with 14 stores in Mexico. This leading manufacturer-retailer of men's quality clothing had a substantial increase in pesos, but reported lower sales in U.S. dollars because the peso has been valued at 4½ cents compared to 8 cents prior to September, 1976. Robert's 1977 and 1976 earnings were largely eliminated in U.S. dollars by writing down its current assets to the lower peso value; this restatement has been completed and will not affect 1978.

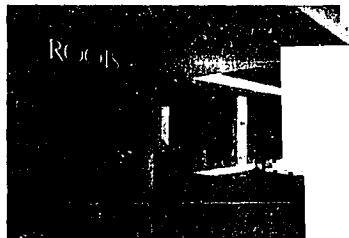
Several important actions strengthened our stores in certain markets and improved efficiency. This included merging some existing groups such as the Ft. Worth and Dallas stores which saved management, advertising and distribution costs. Regional management also has been instituted in some areas to improve merchandising and administrative capabilities.

Our Men's Market Merchandising organization obtains for our stores exclusive merchandise with unusual value and sales appeal. Thorpe, Ltd. was launched in 1977 as our stores' brand for quality dress and sport shirts.

There is a favorable trend in the attitude of knowledgeable consumers toward demanding quality merchandise. This growing market recognizes the values offered by our stores in serving and fitting them with the best in fashionable apparel.



The Roots store in Riverside Square, Hackensack, New Jersey, exemplifies the finest methods of presentation of quality men's apparel.



The newest Hannys, at Camelback Mall in Scottsdale, Arizona features both men's and women's apparel.





Baskin's expansion in the midwest this year included this new store in the Merrillville, Ind shopping mall.



Winner of an architectural prize is this exciting store built in downtown Houston. It is part of a continuing sunbelt expansion program.



This attractive Chas A Stevens unit in Northbrook, Illinois, is an excellent example of the 25 women's specialty stores now in operation

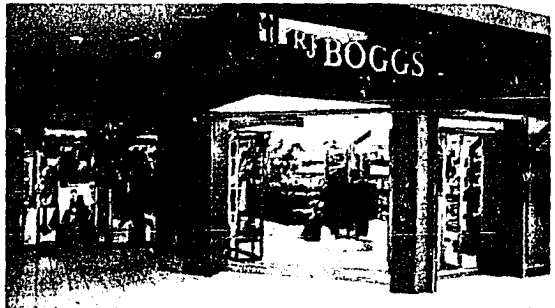


The 276 specialty stores owned by the Company operate under highly respected regional names in 68 major U.S. metropolitan areas. The Company is broadening the appeal of its retail stores by offering a greater selection of fashion apparel including merchandise to attract the younger customer. Most of the 22

new stores opened in 1977 in 14 metropolitan areas feature the flexible new open-store design concept that dramatizes the merchandise presentation.



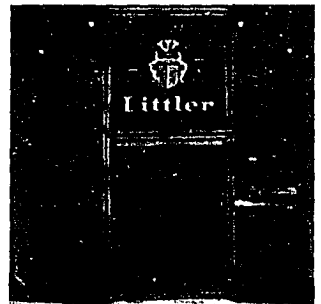
This new open-store design, our fourth Shulman's, was built in the Nowmarket North Shopping Mall, Hampton, Virginia



The seventh of our attractive small space R. J. Boggs stores opened last fall in Galleria II, Houston



Littler's, the finest men's and women's specialty store in the Pacific Northwest, opened its new store in the Rainier Square complex in Seattle



Retail Stores Division

47 retail companies with
276 retail stores in 68
metropolitan areas of the U.S.
and their executive officers

Klopfenstein's
7 Seattle-Tacoma, Wash.
Anchorage, Alaska
Hugh C. Klopfenstein

1 **Littler**
Seattle, Wash.
Laurence Fry

Liemandt's
Minneapolis, Minn.
John A. Liemandt

Rosenblatt's
4 Portland, Ore.
Bruce Bailey
Hugh C. Klopfenstein

Kuchera's
2 Des Moines, Iowa
Nate Bernstein
Frank Stewart

Jack Henry
Kansas City, Mo.
David M. Carpenter
Ernest A. Dick

Arthur Frank
3 Salt Lake City, Utah
Lawrence K. Goldsmith
Simon Frank

Ray Beers
2 Topeka, Kan.
Ray Beers, Jr.
Philip C. Gibson

Hasting's
15 San Francisco,
Sacramento, Cal.
Enzo Belli

Silverwoods
20 Los Angeles, Cal.
Las Vegas, Nev.
Charles E. Haupt
Stephen C. Bilhelmer

Hanny's
8 Phoenix, Ariz.
William H. Harrington
William O. Manzer

Blackburns
2 Amarillo, Tex.
Calvin McAdams

Jas. K. Wilson/Washer Bros.
10 Dallas, Fort Worth, Tex.
Harvey Weinberg
Alex J. Cochrane

Merritt Schaefer & Brown
Austin, Tex.
Ronald Kercheville

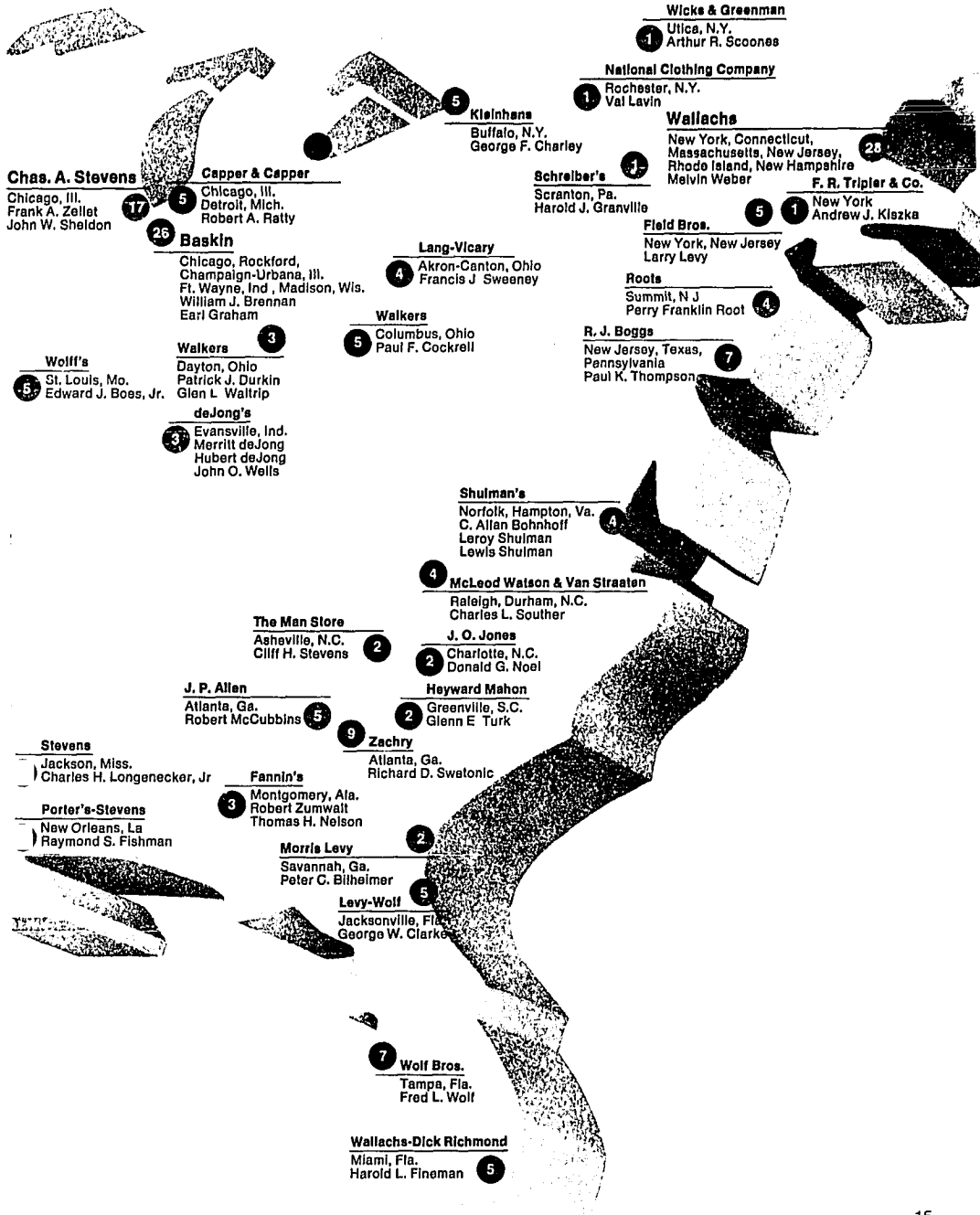
Leopold Price and Rolle
Houston, Tex.
Harvey Brown

Frank Bros.
3 San Antonio, Tex.
Earl H. Freeman
Stanley Frank, Sr.

Robert's
14 Mexico City
Jorge J. Springer
Jaime Poplawski
Joaquin Shapiro

The number in each store dot represents
the units each group operates.
Additionally the following color coding
illustrates the type of store.

Symbol	Store Types	Number
●	Men's Clothing	107
●	Women's Clothing	25
●	Men's and Women's Clothing	144
Total U.S.		276
Mexico		14



Wicks & Greenman

1 Utica, N.Y.
Arthur R. Scoones

National Clothing Company

1 Rochester, N.Y.
Val Lavin

Wallachs

New York, Connecticut,
Massachusetts, New Jersey,
Rhode Island, New Hampshire
Melvin Weber

F. R. Tripler & Co.

1 New York
Andrew J. Kiazka

Field Bros.

New York, New Jersey
Larry Levy

Roots

Summit, N.J.
Perry Franklin Root

R. J. Boggs

New Jersey, Texas,
Pennsylvania
Paul K. Thompson

Kleinhans

Buffalo, N.Y.
George F. Charley

Schreiber's

Scranton, Pa.
Harold J. Granville

Lang-Vicary

4 Akron-Canton, Ohio
Francis J. Sweeney

Walkers

5 Columbus, Ohio
Paul F. Cockrell

Walkers

Dayton, Ohio
Patrick J. Durkin
Glen L. Waltrip

deJong's

3 Evansville, Ind.
Merritt deJong
Hubert deJong
John O. Wells

Shulman's

Norfolk, Hampton, Va.
C. Allan Bohnhoff
Leroy Shulman
Lewis Shulman

McLeod Watson & Van Straaten

Raleigh, Durham, N.C.
Charles L. Souther

J. O. Jones

2 Charlotte, N.C.
Donald G. Noel

Heyward Mahon

2 Greenville, S.C.
Glenn E. Turk

The Man Store

Asheville, N.C.
Cliff H. Stevens

J. P. Allen

Atlanta, Ga.
Robert McCubbins

Stevens

Jackson, Miss.
Charles H. Longenecker, Jr.

Porter's-Stevens

New Orleans, La.
Raymond S. Fishman

Fannin's

3 Montgomery, Ala.
Robert Zumwalt
Thomas H. Nelson

Morris Levy

Savannah, Ga.
Peter C. Bilheimer

Levy-Wolf

Jacksonville, Fla.
George W. Clarke

Wolf Bros.

7 Tampa, Fla.
Fred L. Wolf

Wallachs-Dick Richmond

Miami, Fla.
Harold L. Fineman

Chas. A. Stevens

Chicago, Ill.
Frank A. Zellat
John W. Sheldon

Capper & Capper

Chicago, Ill.
Detroit, Mich.
Robert A. Ratty

Baskin

Chicago, Rockford,
Champaign-Urbana, Ill.
Ft. Wayne, Ind., Madison, Wis.
William J. Brennan
Earl Graham

Wolff's

5 St. Louis, Mo.
Edward J. Boss, Jr.

Consolidated Statements of
Earnings and Retained Earnings

Years ended November 30 (000's omitted)	1977	1976	Consolidated Statement of Earnings
	\$567,986	\$534,609	Net sales
	7,115	6,360	Other income
	575,101	540,969	
	354,424	335,435	Cost of goods sold
	184,419	173,209	Selling, administrative and occupancy expenses
	5,523	4,275	Interest expense
	544,366	512,919	
	30,735	28,050	Earnings before taxes
	15,230	14,200	Taxes on earnings
	\$ 15,505	\$ 13,850	Net earnings
	\$ 1.80	\$ 1.61	Net earnings per common share and common share equivalent
	8,601	8,588	Average number of common shares and common share equivalents

Consolidated Statement of Retained Earnings		
\$137,702	\$129,314	Retained earnings at beginning of year
15,505	13,850	Net earnings for the year
		<i>Cash dividends paid:</i>
(164)	(164)	Preferred shares, \$2.00 per share
(6,056)	(5,298)	Common shares, \$.72 per share in 1977 and \$.63 per share in 1976
\$146,987	\$137,702	Retained earnings at end of year

(See accompanying notes to consolidated financial statements)

**Consolidated
Balance Sheet**



November 30
(000's omitted)

Current Assets

	1977	1976	Assets
	\$ 14,459	\$ 16,248	Cash and short term investments
	102,889	96,340	Accounts receivable, less allowance of \$4,885,000 and \$4,525,000 for doubtful accounts
	159,238	144,137	Inventories
	2,111	2,066	Prepaid expenses
	278,697	258,791	Total current assets

Other Assets

	4,108	4,030	Other assets
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Properties

	1,317	1,317	Land
	13,889	13,795	Buildings and building equipment
	73,199	67,368	Furniture, fixtures and equipment
	50,209	47,710	Leasehold improvements
	138,614	130,190	
	(80,865)	(74,827)	Accumulated depreciation and amortization
	57,749	55,363	Net properties
	<u>\$340,554</u>	<u>\$318,184</u>	

Liabilities and Shareholders' Equity

Current Liabilities

	\$ 11,500	\$ 14,000	Notes payable to banks
	1,090	940	Current maturities of long term debt
	68,696	59,984	Accounts payable and accrued expenses
	3,119	5,600	Taxes on earnings
	5,550	3,240	Deferred taxes on earnings
	89,955	83,764	Total current liabilities

Long Term Debt

	61,807	54,947	Long term debt, less current maturities
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**Shareholders'
Equity**

	82	82	Convertible preferred shares, \$1 par value; authorized 2,500,000; issued and outstanding, Series A, 82,066 in 1977 and 82,230 in 1976
	21,695	21,691	Common shares, \$2.50 par value; authorized 25,000,000; issued 8,678,190 in 1977 and 8,676,520 in 1976
	23,552	23,544	Capital surplus
	146,987	137,702	Retained earnings
	192,316	183,019	
	(3,524)	(3,546)	Common shares in treasury, at cost, 265,714 in 1977 and 267,414 in 1976
	188,792	179,473	Shareholders' equity
	<u>\$340,554</u>	<u>\$318,184</u>	

(See accompanying notes to consolidated financial statements)

Consolidated Statement of
Changes in Financial Position

(000's omitted)	1977	1976	Years ended November 30
<i>Working capital was provided by:</i>	\$ 15,505	\$ 13,850	Net earnings for the year
	8,300	7,514	Depreciation and amortization
	(44)	345	Other
	23,761	21,709	Working capital provided by operations
	7,950	17,050	Proceeds from long term borrowing
	31,711	38,759	
<i>Working capital was used for:</i>	1,090	23,239	Payment of long term debt
	6,220	5,462	Payment of dividends
	10,686	9,289	Property additions—net
	17,996	37,990	
	\$ 13,715	\$ 769	<i>Increase in working capital</i>
<i>Changes in components of working capital:</i>	\$ (1,789)	\$ 1,918	Cash and short term investments
	6,549	8,691	Accounts receivable
	15,101	17,500	Inventories
	45	(177)	Prepaid expenses
	2,500	(14,000)	Notes payable to banks
	(150)	108	Current maturities of long term debt
	(8,712)	(7,193)	Accounts payable and accrued expenses
	2,481	(4,958)	Taxes on earnings
	(2,310)	(1,120)	Deferred taxes on earnings
	\$ 13,715	\$ 769	<i>Increase in working capital</i>

(See accompanying notes to consolidated financial statements)

Report of Independent Accountants

To the
Shareholders
and Board
of Directors of
Hart Schaffner
& Marx:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, retained earnings and changes in financial position present fairly the financial position of Hart Schaffner & Marx and its subsidiaries at November 30, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Chicago, Illinois
January 17, 1978



Summary of Accounting Policies

The consolidated financial statements include the accounts of the Company and all subsidiaries.

Inventories are stated at the lower of cost or market. Cost is determined by the use of the last-in, first-out (LIFO) method for a substantial quantity of the manufacturing and retail store inventories and it is the primary method used by the Company. For the remaining inventories, the first-in, first-out (FIFO) method is used for manufacturing and the retail method is used for retail stores.

The excess of current costs over LIFO costs for certain inventories increased during 1977 by \$1.5 million; if current costs had been used, inventories would have been higher by approximately \$4.9 million at November 30, 1977, compared to \$3.4 million at November 30, 1976 and \$1.8 million at November 30, 1975 and 1974.

Properties are stated at cost. Additions, major renewals and betterments are capitalized; maintenance and repairs which do not extend asset lives are charged against earnings. Profit or loss on disposition of assets is reflected in earnings and the related asset costs and accumulated depreciation are removed from the respective accounts except for certain assets for which the composite method of computing depreciation is used under which no gain or loss is recognized on disposition.

Accelerated depreciation methods are used for a significant portion of the properties and the straight line method is used for the remainder. Depreciation is computed based on useful lives of 20 to 45 years for buildings, 5 to 20 years for building equipment and 3 to 15 years for furniture, fixtures and equipment. Amortization of leasehold improvements is based upon the terms of the respective leases.

Deferred taxes on earnings are provided for timing differences between financial and taxable income. Investment tax credits are recognized as a reduction of the current provision for taxes on earnings in the year the related assets are placed in service.

The Company and its subsidiaries maintain pension plans covering substantially all employees other than those covered by union-sponsored plans. Pension expense charged against earnings includes current service costs and, as to plans not fully funded, amortization of prior service costs over periods ranging from ten to thirty years. Pension costs are funded as accrued.

Earnings per share are computed based on the average number of common shares and common share equivalents outstanding. Convertible preferred shares have been included as common share equivalents. When dilutive, stock options are included as share equivalents using the treasury stock method.

Leases

The Company and its subsidiaries operate principally in leased facilities. Over 90 percent of all leases provide for the payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs, which are substantial in proportion to the minimum rentals. At November 30, 1977, total minimum annual rentals under all noncancelable leases and rentals applicable to capital leases, all net of sublease income which amounts to \$548,000 in 1978 and progressively less in subsequent years, are as follows ('000's omitted):

Capital leases	All leases	Years
\$ 566	\$12,899	1978
566	12,517	1979
566	12,023	1980
566	11,443	1981
613	11,200	1982
3,647	44,044	1983-1987
2,461	24,136	1988-1992
566	7,365	1993-1997
483	2,287	Thereafter

Rental expense, including rentals under short term leases, was comprised of the following (000's omitted):

1977	1976	
		<i>Capital leases:</i>
\$ 749	\$ 712	Minimum rentals
105	100	Contingent rentals
(208)	(204)	Sublease (income)
		<i>Operating leases:</i>
15,015	14,059	Minimum rentals
4,244	4,403	Contingent rentals
(716)	(699)	Sublease (income)
<u>\$19,189</u>	<u>\$18,371</u>	<u>Total rental expense</u>

Almost one-half of the leases contain renewal options ranging from 5 to 25 years; several leased facilities may be purchased at various dates at an aggregate cost of \$5,200,000. Contingent rental payments are generally based on the sales volume of the rental unit.

The present value of capital lease commitments was \$4.9 million at November 30, 1977 and \$5.2 million at November 30, 1976. The weighted average of interest rates used to compute present value was approximately 5.1 percent in both 1977 and 1976. The range of interest rates was 3.5 to 7.5 percent in both years.

The Financial Accounting Standards Board's statement concerning Accounting for Leases includes a requirement, not yet effective, that the present value of capital leases be retroactively recorded as fixed assets and liabilities. Had the rental properties which are classified as capital leases been capitalized, amortized and interest accrued on the basis of the outstanding lease commitments, the effect on net earnings in 1977 and 1976 would have been insignificant.

Long Term Debt

At November 30, 1977 and 1976, long term debt, less current maturities, was comprised of the following (000's omitted):

1977	1976	
\$32,700	\$32,700	8½ % sinking fund debentures (due 1996)
25,000	17,050	9¼ % promissory notes (due 1991)
4,107	5,197	Other debt, extending to 1991 (average interest rate of 5½ %)
<u>\$61,807</u>	<u>\$54,947</u>	

Annual retirements of \$1,750,000 of the 8½ % sinking fund debentures are required commencing February 15, 1978. In 1976, the Company purchased \$2,300,000 principal amount of the debentures which may be applied toward the sinking fund requirement.

In October, 1976, the Company entered into a note agreement with several institutional investors which provided for \$25,000,000 of borrowings evidenced by 9¼ % promissory notes. Of this amount, \$17,050,000 was received on October 15, 1976, and \$7,950,000 was received on May 26, 1977. The notes require annual payments of \$1,400,000 on December 1, 1981, 1982 and 1983 and \$2,600,000 annually each December 1 thereafter. The Company may make optional prepayments without premium in amounts equal to and at the dates of the required payments, not to exceed \$7,500,000 in the aggregate, and may make additional prepayments, subject to certain restrictions prior to November 1, 1985, of all or any portion of the notes at varying premiums.

Under the most restrictive provisions of the Company's borrowing agreements, the Company may incur total funded debt up to approximately the amount of shareholders' equity, and at November 30, 1977 senior funded debt was limited to approximately \$168 million. In addition, at November 30, 1977 consolidated working capital was \$189 million compared to \$93 million required to be maintained by the Company. Consolidated retained earnings of \$26,800,000 at



November 30, 1977 plus 80% of earnings thereafter are available for the payment of future cash dividends.

Taxes on Earnings

The provision for taxes on earnings is summarized as follows (000's omitted):

1977	1976	
		<i>Current</i>
\$10,520	\$10,650	Federal
1,500	1,730	State and other
900	700	Foreign
12,920	13,080	<i>Total current</i>
		<i>Deferred</i>
2,040	970	Federal
270	150	State and other
2,310	1,120	<i>Total deferred</i>
\$15,230	\$14,200	<i>Total taxes on earnings</i>

The deferred tax provisions are primarily comprised of the reversal in 1977 of tax prepayments of \$1,200,000 and deferrals of \$1,000,000 and \$1,100,000 in 1977 and 1976 respectively, attributable to deferred gross margin on instalment sales.

The effective tax rate was 49.6% in 1977 and 50.6% in 1976. The difference between total taxes on earnings reflected in the accompanying statement of earnings and the amount computed by applying the federal statutory tax rate to pre-tax earnings is summarized as follows:

Percent of pre-tax earnings		
1977	1976	
48.0%	48.0%	Taxes computed at statutory rate
3.0	3.5	State and other taxes on earnings, net of federal tax benefit
(2.6)	(1.8)	Investment tax credit (Approximately \$800,000 in 1977 and \$500,000 in 1976)
1.2	.9	Other—net
49.6%	50.6%	

Stock Option Plans

The Company has stock option plans under which officers and key employees may be granted options to purchase the Company's common stock at prices equal to the fair market value at date of grant. Options under all plans are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five to ten years after date of grant. A total of 454,406 common shares were reserved at November 30, 1977 for options granted or to be granted.

A summary of the plans for the year ended November 30, 1977 is as follows:

Number of shares under option	Range of option prices per share	
387,610	\$ 6.38 to \$30.00	Under option at beginning of year
81,850	12.07 to 14.13	Granted
(1,375)	7.82 to 10.07	Exercised
(48,450)	8.88 to 30.00	Expired or terminated
419,635	6.38 to 26.88 (average of \$13.74)	Under option at end of year

Options exercisable at end of year:	Available for grant:
	Beginning of year 76,771
203,566	End of year 34,771

Pension Plans

The Company's principal plan requires contributions by the employees and another pension plan permits voluntary employee contributions. Except for several deferred profit sharing plans of subsidiaries, all employer contributions are based on actuarial determinations.

Total pension costs for the years ended November 30, 1977 and 1976 were approximately \$2,550,000 and \$2,650,000 respectively, excluding contributions to

union-sponsored plans. At November 30, 1977, the amount funded exceeded the actuarially computed total of vested benefits and the unfunded past service liability was approximately \$2,000,000. Contributions to union-sponsored plans are made by the Company and certain subsidiaries pursuant to industry-wide collective bargaining agreements.

Consent Decree

A consent decree entered on June 1, 1970 by the United States District Court requires either consent of the Department of Justice or approval of the Court to acquire an interest (or assets) in any existing men's clothing

store prior to June 1, 1980. The last divestiture requirements of the decree were satisfied in 1974.

Convertible Preferred Shares

Series A preferred shares are voting shares, each convertible into 1.8 common shares and are cumulative with an annual \$2 dividend rate. The shares are callable at a liquidation price of \$67.50 each (an aggregate of \$5,539,000 at November 30, 1977) and 147,719 common shares are reserved for conversion. During 1977, 164 preferred shares were converted into 295 common shares.

Quarterly Financial and Common Share Information

Quarters (not separately audited)	Net Sales		Gross Profit		Net Earnings				Cash Dividends	
	(000's omitted)		(000's omitted)		(000's omitted)		Per Share		Per Share	
	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976
First	\$147,840	\$136,836	\$ 56,265	\$ 52,358	\$ 4,740	\$ 4,050	\$.55	\$.47	\$.18	\$.15
Second	128,004	121,234	49,514	46,218	3,070	2,840	.36	.33	.18	.15
Third	131,267	127,628	48,121	46,446	2,787	2,580	.32	.30	.18	.15
Fourth	160,875	148,911	59,662	54,152	4,908	4,380	.57	.51	.18	.18
Total	\$567,986	\$534,609	\$213,562	\$199,174	\$15,505	\$13,850	\$1.80	\$1.61	\$.72	\$.63

Quarterly financial information for 1977, but not for prior years, has been reviewed by the Company's independent accountants in accordance with procedures promulgated in 1976 by the American Institute of Certified Public Accountants.

Hart Schaffner & Marx common shares are traded under the symbol HSM on the New York and Midwest Stock Exchanges. The quarterly price range for the past two years was:

Fiscal 1977					Fiscal 1976			
	Fourth	Third	Second	First	Fourth	Third	Second	First
High	\$12¾	\$13¼	\$14¼	\$14½	\$13	\$13	\$14½	\$12½
Low	11	11¼	11½	11¾	10¾	10	10¼	8

Series A cumulative preferred shares, on which quarterly \$.50 cash dividends were paid in 1977 and 1976, while not separately traded, are each convertible into 1.8 common shares.



Replacement Cost Information (Unaudited)

In compliance with the regulations of the Securities and Exchange Commission, the Company has estimated the replacement cost of inventories, productive capacity (plant and equipment) and retail facilities as of November 30, 1977 and the approximate effect such replacement costs would have had on cost of goods sold and depreciation expense for the fiscal year then ended. The replacement cost of inventories, productive capacity and retail facilities would be higher than book values. Although an exact calculation of the effect upon operations of complete replacement is not possible, efficiencies from replacing manufacturing plants and equipment plus increased sales from enhanced retail facilities generally offset the higher cost of goods sold and depreciation expense related to such replacements. The Company's annual report to the Securities and Exchange Commission on Form 10-K contains detailed information regarding replacement costs.

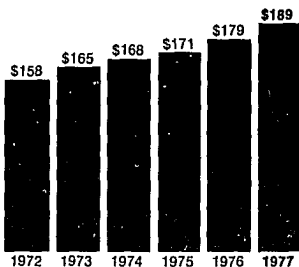
Form 10-K: Hart Schaffner & Marx will provide to any shareholder, without charge, a copy of its Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (but without exhibits). Requests should be in writing to: Hart Schaffner & Marx, attention, Mrs. Kay C. Nalbach, Assistant Secretary, 36 South Franklin Street, Chicago, Illinois 60606.

Transfer Agent and Registrar
The First National Bank of Chicago
Chicago, Illinois 60670

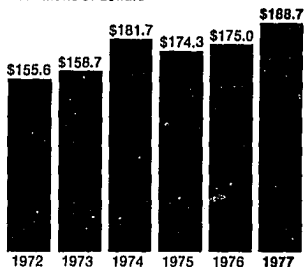
Hart Schaffner & Marx corporate office
36 South Franklin Street
Chicago, Ill. 60606
(312) 372-6300

New York City sales offices
1290 Avenue of the Americas
New York, N.Y. 10019

Shareholders' Equity
in millions of dollars



Working Capital
in millions of dollars



Management Analysis of Results
and Summary of Operations

Consolidated sales increased 6.2 percent in 1977 to \$568 million, comprised of \$348 million retail sales and \$220 manufacturing sales to independents, both record highs. Total 1977 manufacturing volume was slightly over \$275 million, also a record high; over \$55 million shipped to the Company's stores is excluded from consolidated sales. Manufacturing sales to independent accounts increased to \$220 million or 79 percent of 1977 manufacturing volume from approximately \$200 million or 78 percent in 1976.

Retail Stores Division sales are shown on the graph below. Clothing manufactured by the Company represents approximately 40 percent of men's apparel sold by our retail stores, or one-third of total retail sales as all women's wear is purchased from others. The Company now operates 276 retail stores, a record number and slightly more than April, 1974 prior to satisfying a consent decree requiring the divestiture of 30 men's stores.

Earnings increased 12 percent to \$15,505,000 or \$1.80 per share in 1977 compared to 1976 when earnings increased 67 percent to

\$13,850,000 or \$1.61 per share. Sales and earnings increased in each quarter during 1977 and 1976. With this recovery from \$8,310,000 or 97 cents per share earned in 1975, earnings are now close to the fiscal 1973 record of \$16,125,000 or \$1.84 per share. New records were established for sales, earnings and earnings per share in the 1977 fourth quarter and are also expected in the first quarter of 1978.

Some of the 1977 sales increase of 6.2 percent was from higher prices, which are partly offset by more sales of moderately priced merchandise appealing to younger customers. The 9.8 percent increase in 1976 was partly a recovery from the depressed 1975 level.

Margins increased in both 1977 and 1976, due to higher production levels and improved markups. Selling, administrative and occupancy expenses increased \$11.2 million to 32.5 percent of sales in 1977 from 32.4 percent of sales in 1976 when expenses increased \$9.8 million. Higher wages, fringe benefits, occupancy expenses and related energy costs account for the increase in proportion to sales.

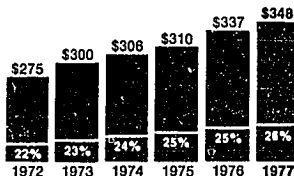
Interest expense, which decreased \$2,339,000 in 1976 following a large reduction in bank loans, increased \$1,248,000 in 1977 due to higher debt. Interest expense was partly offset by an increase in other income to \$7,115,000 from \$6,360,000; this \$755,000 increase was from short-term investing of cash and service charges on receivables.

The higher sales and improved margins increased earnings before taxes from \$28,050,000 in 1976 to \$30,735,000 in 1977, which was higher than the \$30,422,000 earned in 1973. Taxes on earnings as a percent of pre-tax earnings were reduced to 49.6 percent in 1977, largely from investment tax credits on fixed asset purchases, compared to the relatively high 50.6 percent in 1976. Property additions in 1977 were \$10,686,000 and more assets were eligible for the tax credit than in 1976, when property additions were \$9,289,000.

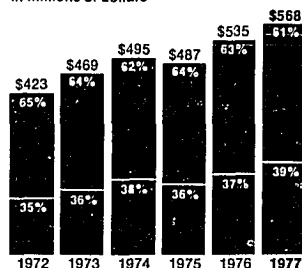
Depreciation and amortization increased to \$8.3 million in 1977 from \$7.5 million in 1976 as a result of the fixed asset additions and greater use of accelerated depreciation.

Retail Stores Sales
in millions of dollars

■ Total Retail
■ Women's
Percent of Total Retail
■ Retail Stores
Division Percent of
Total Sales
■ Manufacturing
Division Percent of
Total Sales



Retail Stores and Manufacturing Sales
in millions of dollars



Six Year Consolidated
Summary of Operations



(000's omitted)	Years ended November 30	1977	1976	1975	1974	1973	1972
Net sales		\$567,986	\$534,609	\$486,833	\$494,937	\$469,158	\$423,114
Other income		7,115	6,360	5,184	5,296	3,756	3,512
		575,101	540,969	492,017	500,233	472,914	426,626
Cost of goods sold		354,424	335,435	305,720	310,150	286,470	259,093
Selling, administrative and occupancy expenses		184,419	173,209	163,363	159,958	151,149	136,323
Interest expense		5,523	4,275	6,614	6,979	4,873	3,996
		544,366	512,919	475,697	477,087	442,492	399,412
Earnings before taxes		30,735	28,050	16,320	23,146	30,422	27,214
Taxes on earnings		15,230	14,200	8,010	11,391	14,297	13,024
Net earnings		\$ 15,505	\$ 13,850	\$ 8,310	\$ 11,755	\$ 16,125	\$ 14,190
Net earnings per common share and equivalent	\$	1.80	\$ 1.61	\$.97	\$ 1.36	\$ 1.84	\$ 1.61
Cash dividends paid on:							
Preferred shares	\$	164	\$ 164	\$ 164	\$ 164	\$ 164	\$ 180
Common shares	\$	6,056	\$ 5,298	\$ 5,044	\$ 7,466	\$ 7,414	\$ 6,914
per share	\$.72	\$.63	\$.60	\$.88	\$.86	\$.80
Average number of common shares and equivalents		8,601	8,588	8,558	8,637	8,767	8,805

Retail Price Ranges
of Suits by Brand

